

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00  
CIEP-01 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05 L-03  
NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02  
SS-15 STR-04 TRSE-00 ACDA-07 FRB-03 XMB-02 OPIC-03  
LAB-04 SIL-01 FTC-01 AGRE-00 HEW-04 /117 W  
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TO SECSTATE WASHDC 3346  
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E.O. 11652: N/A  
TAGS: EINV, ECON, BG  
SUBJECT: THE INVESTMENT CLIMATE IN BANGLADESH

REF: A. DACCA 0055 B. 76 DACCA 3744 (C) MEMCON DTD  
DEC 8, 1976, (D) 76 DACCA A-151, E. MEMCON  
DTD AUG 31, 1976, F. 76 DACCA 6451, G. DACCA 0049  
H. MEMCON DEC 16, 1976 I. MEMCON DEC 18, 1976  
J. MEMCON, JAN. 7, 1977

1. SUMMARY: SINCE NOVEMBER 1975, THE US EMBASSY IN  
DACCA HAS BECOME AWARE OF A LARGE NUMBER OF NEW INVEST-  
MENTS ASSOCIATED WITH US FIRMS IN BANGLADESH. RECENTLY  
ANNOUNCED US CORPORATE INITIATED INVESTMENTS IN BANGLADESH  
COULD EXCEED ONE BILLION DOLLARS OVER THE NEXT DECADE  
OR LESS. WHAT FOLLOWS IS AN OUTLINE OF CURRENT US  
PRIVATE INVESTMENT PROGRAMS IN BANGLADESH. END SUMMARY.

2. OIL AND GAS INVESTMENT.

FIVE UNITED STATES FIRMS ARE CURRENTLY ACTIVE IN OIL  
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AND GAS EXPLORATION IN BANGLADESH. THEY ARE:

A. INTERNATIONAL SYSTEMS AND CONTROLS (ISC). ISC, AS  
THE HEAD OF AN INTERNATIONAL CONSORTIUM RECENTLY (LATE  
DECEMBER) SIGNED A NATURAL GAS EXPLORATION AGREEMENT  
WITH PETROBANGLA, BANGLADESH'S NATIONAL IIL FIRM (REF A).  
THE INITIAL PURPOSE OF THIS AGREEMENT IS TO FURTHER

EXPLORE THE BAKHRABAD OIL FIELDS. ISC AND PETROBANGLA ARE DELIVERATELY KEEPING THE DETAILS CONFIDENTIAL AND HAVE NOT YET PUBLICLY ANNOUNCED THEIR AGREEMENT.

THE FOLLOWING US OIL AND GAS EXPLORATION INVESTMENTS ARE THE RESULTS OF PRODUCTION-SHARING AGREEMENTS ANNOUNCED IN 1974. THEREFORE WHILE NOT PART OF THE RECENTLY ANNOUNCED INVESTMENTS, THEY ARE THE SOURCES OF POTENTIAL FUTURE INVESTMENTS, THEY ARE THE SOURCES OF POTENTIAL FUTURE INVESTMENT (SEE ALSO REF B).

B. UNION OIL. UNION'S CURRENT DRILLING PROGRAM IS THE ONLY ACTIVE DRILLING PROGRAM IN BANGLADESH ENTIRELY DIRECTED BY A US FIRM. UNION RESUMED DRILLING OPERATIONS IN DECEMBER 1976. ITS CURRENT WELL IS NOW APPROACHING ITS INTENDED DEPTH. WE EXPECT THAT ANY RESULTS FAVORABLE OR UNFAVORABLE WILL BE ANNOUNCED IN THE NEAR FUTURE.

C. TEXAS PACIFIC PETROLEUM. TEXAS PACIFIC PETROLEUM RECENTLY ACQUIRED 50 PERCENT OF THE INTEREST OF THE YUGOSLAV FIRM INA-NAPTHALIN'S DRILLING RIGHTS IN THE BAY OF BENGAL. LAST YEAR INA-NAPTHALIN'S DRILLING PROGRAM YIELDED SOMEWHAT PROMISING RESULTS WHEN VERY HIGH GAS PRESSURE WAS EXPERIENCED AT 13,419 FEET. THIS PRESSURE, HOWEVER, FORCED INA-NAPTHALIN TO ABANDON THIS FIRST WELL LAST YEAR.

D. ARCO BANGLADESH. ARCO BANGLADESH HOLDS AN OIL LEASE IN THE BAY OF BENGAL. NO DRILLING IS SCHEDULED FOR THE FIRST PART OF THIS YEAR. ONE WELL WAS DRILLED IN 1976.

E. ASHLAND OIL. ASHLAND OIL ALSO HOLDS AN OIL LEASE IN THSOBAY OF BENGAL. NO DRILLING IS SCHEDULED FOR THE FIRST PART OF THIS YEAR. NO WELLS HAVE YET BEEN DRILLED

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2. CONSTRUCTION. AT LEAST THREE US CONSTRUCTION FIRMS ARE ACTIVE IN BANGLADESH. THEY ARE VINNELL, PARSONS, AND AMMANN & WHITNEY. ONE, VINNELL, IS NOW ACTIVELY PURSUING THREE LARGE PROJECTS, THE MANU AND MUHURI RIVER PROJECTS AND THE JAIPURHAT LIMESTONE MINE AND CEMEMT WORKS. A SUMMARY OF THE PROJECTS FOLLOWS (REF C).

A. MANU RIVER PROJECT. THIS PROJECT, TO BE FUNDED BY THE KUWAITI DEVELOPMENT FUND, IS SCHEDULED TO IMPROVE THE DRAINAGE OF THE MANU RIVER NEAR MOULVI BAZAAR IN SYLHET. WHEN COUPLED WITH THE MUHURI PROJECT, VINNELL ESTIMATES THAT THE PROJECT WOULD COST AROUND \$29 MILLION.

B. MUHURI RIVER PROJECT. THE DECISION ON WHO WILL CONSTRUCT THIS PROJECT (LOCATED IN CHITTAGONG AND NOAKHALI DISTRICTS) NOW RESTS WITH THE WORLD BANK IN WASHINGTON. VINNELL IS REPORTED TO HAVE SUBMITTED THE HIGH BID ON THIS PROJECT. FOR THIS REASON IT IS UNLIKELY TO WIN THE CONTRACT.

C. JAIPURHAT LIMESTONE MINE AND CEMENT WORKS. VINNELL AND THE GOVERNMENT ARE BOTH REPORTED TO BE ACTIVELY PUSHING THIS \$200 MILLION PROJECT. VINNELL APPEARS TO HAVE FEW ROADBLOCKS WITHIN BANGLADESH FOR WINNING THIS PROJECT'S CONTRACT. ITS MAIN FUTURE DIFFICULTIES APPEAR TO INVOLVE FINANCING THE PROJECT AND ACQUIRING THE OPIC INSURANCE REQUIRED TO MAKE VINNELL'S PARTICIPATION FEASIBLE.

3. PHARMACEUTICALS. TWO US FIRMS, SQUIBB AND PFIZER, ARE CURRENTLY MANUFACTURING PHARMACEUTICALS IN BANGLADESH. A THIRD US FIRM, BRISTOL-MYERS, IS CURRENTLY IMPORTING MACHINERY AND WILL PROBABLY SOON CONVERT ITS THIRD PARTY MANUFACTURING ARRANGEMENTS WITH THE BANGLADESH GOVERNMENT'S ALBERT DAVID FIRM INTO A JOINT VENTURE. STERLING DRUG HAS RECENTLY SET UP AN OFFICE IN DACCA AND EXPECTS TO REACH AGREEMENT WITH THE BDG AND LIMITED OFFICIAL USE

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TO START MANUFACTURING WITHIN A YEAR. SMITH KLINE AND FRENCH HAS JUST RECEIVED GOVERNMENT AUTHORIZATION TO CONSTRUCT A FACTORY. SEVERAL OTHER FIRMS WILL PROBABLY ALSO START PHARMACEUTICALS MANUFACTURING WITHIN THE NEXT YEAR OR TWO. THESE FIRMS INCLUDE WARNER-LAMBERT (I.E., PARKE-DAVIS), WYETH, AND UPJOHN. OUR INFORMATION ON MANY OF THESE LATTER FIRMS IS INCOMPLETE BUT IF PLANT CONSTRUCTION OCCURS, INITIAL INVESTMENTS OF \$500,000 TO \$1 MILLION EACH WOULD NOT BE UNREASONABLE. SINCE THE LAST TWO YEARS HAVE BROUGHT REDUCED SALES FOR GANGLADEHSI PHARMACEUTICALS FIRMS, SOME OF THESE PROJECTS MAY NOT BE CARRIED OUT. PHARMACEUTICAL INVESTMENTS IN BANGLADESH TEND TO TAKE THE FORM OF 55-60 PERCENT FOREIGN OWNERSHIP. THE REMAINING OWNERSHIP IS USUALLY IN BANGLADEHSI (ALMOST ALWAYS GOVERNMENT ASSOCIATED) HANDS.

4. BANKS. ONE US ASSOCIATED BANK RECENTLY OPENED IN BANGLADESH. THIS WAS THE BANK OF CREDIT AND COMMERCE INTERNATIONAL. ITS OFFICERS REPORT THAT THE BANK IS THIRTY PERCENT OWNED BY BANK OF AMERICA. ITS REMAINING (AND USUALLY UNIDENTIFIED BY NAME) OWNERS ARE ARAB INTERESTS (REF D). CHASE MANHATTEN HAS ALSO EXAMINED LOCAL PROSPECTS BUT APPARENTLY HAS NOT YET DECIDED WHETHER OR NOT TO OPEN A BRANCH OFFICE HERE.

5. MOTOR VEHICLES. GENERAL MOTORS IS AGAIN SERIOUSLY CONSIDERING ACQUIRING A SHARE OF PRAGOTI INDUSTRIES, BANGLADESH'S ONLY MOTOR VEHICLE ASSEMBLY FIRM. THE INVESTMENT WHICH WILL BE UP TO TWO MILLION DOLLARS WILL GIVE GM UP TO 50 PERCENT OR MORE INTEREST IN THE FIRM WHICH NOW ASSEMBLES GM DESIGNED BUSES AND TRUCKS (REF E).

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6. EMERALD INDUSTRIES. THE FUTURE OF EMERALD, THE  
LARGEST (IN EMPLOYMENT) US INVESTMENT IN BANGLADESH  
AND THE FIRST US INVESTMENT IN BANGLADESH SINCE  
INDEPENDENCE (1971), REMAINS IN DOUBT FOLLOWING THE  
TWELVE DAY ARREST OF ITS CHAIRMAN (REFS F AND G).  
EMERALD OFFICIALS REMAIN CONFIDENT OF THEIR PROSPECTS  
BOTH IN THE COURTS AND IN THE INVESTMENT ARENA. COURT  
RULINGS TO DATE HAVE BEEN IN EMERALD'S FAVOR.  
EMERALD'S MANUFACTURING ACTIVITIES INCLUDE PETIT POINT,  
JUTE HANDICRAFTS AND LIGHT BULBS. ITS CURRENT EM-  
PLOYMENT IS AROUND 2,000. IT HAS ALSO IN ABOUT SIX  
MONTHS (STARTING MID 1976) MANAGED TO BE INVOLVED IN  
AROUND 20 TO 25 PERCENT OF BANGLADESH'S JUTE GOODS  
EXPORTS. (THAT WOULD BE AROUND 15 PERCENT OF BANGLADESH'S  
TOTAL EXPORTS.) PLANS CONSIDERED PRIOR TO ITS RECENT  
LEGAL DIFFICULTIES INCLUDED A 5,000 EMPLOYEE KNITTING  
MILL, AN AIRCONDITIONER FACTORY (WITH HITACHI),  
FISHERIES AND FISH PROCESSING, TRAINING CONSTRUCTION  
WORKERS, AND AN INVESTOR ASSISTANCE PROGRAM.  
POTENTIAL COINVESTORS INCLUDE INTERNATIONAL  
FIRMS SUCH AS JARDINE MATHESON, MERCHANTS GROUP (REFS  
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H AND I), OCEANIC PROPERTIES, AND THE ARISTOS GROUP (REF J).

7. COMMENT. IT IS DIFFICULT TO ASSESS WHETHER ALL OF THIS IS THE PRODUCT OF THE BDG'S EFFORTS TO ENCOURAGE FOREIGN INVESTMENT. OF THE FPROJECTS LISTED ABOVE, THOSE OF EMERALD SEEM TO FOLLOW MOST CLOSELY THE GUIDELINES SET BY THE BDG. WITH THE EXCEPTION OF ITS LIGHT BULB OPERATIONS, ALL OF EMERALD'S MANUFACTURING ACTIVITIES TEND TO MEET THE GOVERNMENT'S 100 PERCENT EXPORT AND LABOR INTENSIVE PRODUCTION GOALS. EMERALD AND THE INVESTMENT INCENTIVES PRE DATE THE CURRENT GOVERNMENT. EMERALD AND OTHER FIRMS ARE NOT, HOWEVER, HESITANT TO TAKE ADVANTAGE OF OPPORTUNITIES WHEN AVAILABLE. OTHER ITEMS WOULD SEEM TO SHARE IMPORTANCE WITH THE GOVERNMENT'S INVESTMENT PROGRAMS. ISC'S INVESTMENT IS THE RESULT OF BDG EXPLORATION EFFORTS. THE INCREASED POLITICAL STABILITY SINCE NOVEMBER 1975 HAS UNDOUBTABLY ENCOURAGED INVESTORS. ONE FURTHER INCENTIVE MENTIONED BY THE PRESIDENT OF THE MERCHANTS GROUP IS THAT LABOR IN EAST ASIA (SPECIFICALLY TAIWAN) IS EXPENSIVE RELATIVE TO BANGLADESHI LABOR. THIS HAS PROVEN ONE OF HIS GROUPS' INCENTIVES FOR CONSIDERING INVESTMENT IN BANGLADESH.

BY EAST OR SOUTH EAST ASIAN STANDARDS SUCH FOREIGN INVESTMENTS ARE RATHER OLD HAT AND SMALL. IN BANGLADESH THEY ARE NEW AND COMPARATIVELY LARGE. WHETHER THEY PRESSAGE A MORE PROMISING ECONOMIC FUTURE FOR THIS, ONE OF THE POOREST OF LARGE (POPULATION) NATIONS, DEPENDS HEAVILY ON CONTINUED POLITICAL STABILITY, THE CONTINUING WILLINGNESS OF THE BDG TO MAKE THIS COUNTRY MORE ATTRACTIVE TO POTENTIAL INVESTORS AND THE CAPACITY OF BANGLADESHIS TO ABSORB THE CULTURAL CHANGES WHICH DEVELOPMENT WILL REQUIRE.

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## Message Attributes

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